

87<sup>th</sup> Legislative Session – 2012

Committee: Joint Appropriations

Thursday, February 23, 2012

P - Present  
E - Excused  
A - Absent

Roll Call

P Wismer  
P Dennert  
P Sutton  
P White  
P Dryden  
P Bolin  
P Romkema  
P Deelstra  
P Peters  
P Novstrup (Al)  
P Heineman  
P Haverly  
P Juhnke  
P Putnam  
P Carson  
P Tidemann  
P Wink, Vice-Chair  
P Brown, Chair

OTHERS PRESENT: See Original Minutes

The meeting was called to order by Chairman Corey Brown.

Chairman Brown passed the gavel to Representative Dennert. Senator Putnam assumed the Vice-Chair position.

**Presentation of Revenue Projections**

The Joint Appropriations Committee met to hear revenue projections for FY13. Jim Terwilliger presented the Bureau of Finance & Management's (BFM) projections. Documents No. 1 entitled

“South Dakota and U.S. Economic Outlook Overview” and No. 2 entitled “Bureau of Finance and Management Revenue Forecasts” were distributed.

Mr. Terwilliger noted:

- The U.S. economic outlook is more balanced, but recession risks are still elevated.
- The monthly non-farm employment levels are improving, but are still not fully recovered.
- The unemployment rates remain elevated but are slowly coming down.
- South Dakota’s non-farm employment is expected to continue to grow.
- South Dakota’s non-farm income is forecasted for below average growth in 2012 and 2013.

Mr. Terwilliger said the economy is a little more balanced but South Dakota shouldn’t get overly optimistic because things are still not clear. South Dakota didn’t feel the recession until late in 2008, approximately 6 months behind the rest of the nation.

As of January 2012, the U.S. is 5.6 million jobs or 4.1% below the previous peak. And, as of December 2011, South Dakota is 800 jobs or 0.2% below peak in 2008.

Unemployment rates remain elevated but are slowly coming down. South Dakota non-farm employment is expected to continue to grow. The Global Insight forecast for South Dakota in November 2011 was 0.8% and is forecasted at 1.3% in February 12. South Dakota’s non-farm income is forecasted for below average growth in 2012 and 2013. The Global Insight forecast in November 2011 was 4.8% growth and is forecasted at a 3.8% rate in 2012 and 2013.

Mr. Terwilliger summarized his remarks by saying:

- Below average U.S. economic growth is expected to continue as consumption growth remains slow.
- Recession risks (25%) stem mostly from the European sovereign debt crisis and its impact on financial markets.
- Despite uncertainties at the global and national level, S.D. economic growth is transitioning the state from a recovering economy to an expanding economy.
- Strength in the agriculture economy continues to be a positive aspect for the state’s overall economy.

In response to Senator Tidemann’s question, Mr. Terwilliger said the crisis in Iran will have a negative impact on the economy especially in regard to oil/gas prices. Gas price increases will cut down on disposable income.

### **Sales & Use Tax**

In the first 7 months of FY12, sales and use tax collections, excluding audits and net of large project refunds, were \$448.2 million. This is an increase of 5.02% from the first 7 months of last

year. Year-to-date collections are 61.4% of the estimate. Historically, 61.0% of the total revenue collected from this tax is received in the first 7 months. BFM estimates Sales & Use Tax revenue of \$737,102,291 in FY12, an increase of 3.79% and \$764,169,601 or an increase of 3.67% for FY13.

### **Contractor's Excess Tax**

In the first 7 months of FY12, net contractor's excise tax collections were \$56.9 million. This is an increase of 28.9% from the first 7 months of last year. The large increase is mainly due to a large amount of taxes reserved for large project refunds from FY11. Year-to-date collections are 71.4% of the estimate. Historically, 68.6% of the total revenue collected from this tax is received in the first seven months. BFM estimates \$79,719,171 for FY12, an increase of 21.34% and \$73,909,957 for FY13, a 7.29% decrease. The FY13 estimate assumes that HB1230, which has been referred to a public vote, will pass.

### **Cigarette Tax**

The first \$30 million generated by this tax is allocated to the general fund and the next \$5 million is deposited into the Tobacco Prevention and Reduction Trust fund. Any revenue in excess of \$35 million is divided among the Property Tax Reduction Fund, the Education Enhancement Tobacco Tax fund and the Health Care Tobacco Tax fund.

Through the first 7 months of FY12 the total collections from the tobacco taxes totaled \$33.3 million and the full \$30 million general fund portion has been collected. The general fund is expected to receive \$30,000,000 in both FY12 and FY13.

### **Bank Franchise Tax**

Ninety-five percent of the taxes paid by banks organized under SDCL 51A-2-39 to 51A-2-43 (bank card taxpayers) and 26 2/3% of all other revenues are deposited in the general fund. The remaining 5% of collections from bank card taxpayers and the 73 1/3% of revenues received from all other banks are remitted to the county where the bank or financial institution is located. Approximately 80% of the revenue deposited in the general fund from the bank franchise tax is typically from bank card institutions. Collections from this tax account for approximately 2% of ongoing general fund revenues in FY13. BFM estimates total receipts of \$25,559,906 in FY12 and \$24,389,040 in FY13.

### **Property Tax Reduction Fund**

Revenues deposited in the Property Tax Reduction Fund (PTRF) come from 3 ongoing sources:

1. Forty-nine and one half percent of video lottery net machine income.
2. Sixty percent of the revenue collected from the 4% tax on the gross receipts of telecommunication services, which was imposed by HB 1104 passed by the 2003 Legislature.
3. Thirty-three percent share of the revenues in excess of \$35 million generated by the tobacco taxes from Initiated Measure 2.

Receipts from the PTRF account for approximately 8.4% of general fund revenues in FY13. BFM estimates total receipts for FY12 to be \$102,070,851, a decrease of 7.53% from FY11 and \$103,983,579 in FY13, a 1.87% decrease.

Mr. Terwilliger said BFM's revised estimate for FY12 was up \$12,489,980 and that the recommended FY13 receipts were up \$12,736,666 from the Governor's December budget.

Fred Schoenfeld, Chief Fiscal Analyst and Aaron Olson, Senior Fiscal Analyst for the Legislative Research Council (LRC) presented LRC's revenue projections. Document No. 3, entitled "2012 General Fund Estimates to the Joint Committee on Appropriations" was distributed. Mr. Schoenfeld told the Committee anecdotal information regarding South Dakota's economic recovery is encouraging. Almost every day there is some report of new business or construction somewhere in the state. Mr. Schoenfeld said in that regard, however this may be driven by wishful thinking where good news is reported and bad news is not instead of sound economic analysis, and the positive implications are not yet reflected in concrete, tangible numbers.

Mr. Schoenfeld said on the other hand, there are very real downside risks which are beyond South Dakota's ability to control. For example: Greece and the European economic community, the possible sequestration reductions in the federal programs to South Dakota, Iran's nuclear development and Mideast oil and gasoline price considerations, etc. There is serious disagreement among economists about what is the target for recovery. Is it a return to business as it was before the recent recession, in which case we can expect continued upward growth? Or, do we have a new normal which could mean this may be as good as it gets. Mr. Schoenfeld said at the end of the day, we concluded for these reasons that a conservative forecast was the proper course. And that is what LRC has done.

Mr. Olson said the Total General Fund estimate for FY12 was \$1,217,605,906, a 6% increase over Actual FY11 and \$1,360,328 over that estimated by the Bureau of Finance & Management. The FY13 estimate totals \$1,235,337,339 a decrease of \$4,006,046 from that of the Bureau of Finance & Management.

### **Sales & Use Tax**

Mr. Olson said our Sales and Use Tax forecast was prepared using 10 years of monthly history from Department of Revenue's Business Tax Reports. The Sales and Use Tax estimate is \$737,487,045 for FY12 and \$763,299,092 for FY13. FY12 was forecasted off the trend and our internal analysis of Sales and Use tax yielded a growth rate of 3.5%. This is generally consistent with the Governor's December budget and Global Insights more recent forecast.

### **Contractor's Excise Tax**

Mr. Olson told the Committee the Contractor's Excise Tax estimate for FY12 is \$79,813,468 and \$74,048,669 for FY13. FY12 was forecasted off the trend and a 2.00% growth rate was used to project FY13. Mr. Olson said the estimate for FY13 assumes that HB1230, which passed during the 2011 Legislative Session and is being referred to a public vote in November of 2012, will pass. If the referred law passes, 22% of the Contractor's Excise Tax collections will be allocated to the Large Project Development Fund beginning on January 1, 2013.

### **Cigarette Tax**

LRC's estimate for both FY12 and FY13 remains at \$30,000,000.

### **Bank Franchise Tax**

Mr. Olson told the Committee LRC's estimate for Bank Franchise Tax is \$26,165,824 for both FY12 and FY13. Through the first 7 months of FY12, gross Bank Franchise Tax collections were \$32.9 million. A reallocation of income from prior tax years caused a one-time payment of approximately \$10.0 million in Bank Franchise Tax collections in FY12. In addition, a refund of approximately \$4.0 million is due back to one of the banks in the current year. LRC has factored those amounts out of their estimate for FY12 and FY13. Mr. Olson said LRC's forecast assumed no growth in FY13 due to the uncertainty of quarterly Bank Card deposits.

### **Insurance Company Tax**

LRC's estimate for FY12 is \$65,696,557 and \$67,471,493 for FY13. FY12 was forecasted off the trend and a 2.70% growth rate was used to project FY13.

### **Investment Income & Interest**

Mr. Olson said LRC's Investment Income and Interest estimate for FY12 was \$9.6 million for FY12 and \$5.9 million for FY13. Through the first 7 months of FY12, Investment Income and Interest collections were \$1.9 million. The Investment Council estimates that the 90% general fund interest proration due in June of 2012 will be approximately \$7.7 million which gets to the \$9.6 million for FY12. For FY13, the Investment Council estimates that the 10% general fund interest proration due in September 2012 will be \$0.9 million and the 90% due in June of 2013 will be approximately \$5.0 million. Mr. Olson said due to low interest rates now and in the foreseeable future, yields are predicted to be at 2.0% for FY12 and 1.4% for FY13. That is down significantly, from prior years.

### **Property Tax Reduction Fund**

Mr. Olson told the Committee LRC's Property Tax Reduction Fund estimate for FY12 is \$101,196,677 and \$102,208,643 for FY13. LRC used a 1% growth rate to project FY13. The projections for Video Lottery, Telecom Excise Tax, and Cigarette Taxes were estimated separately.

### **Charges for Goods and Services**

Mr. Olson told the Committee LRC's estimate for Charges for Goods and Services for FY12 and FY13 was \$21,476,322. A 3.53% growth rate was used to project FY13. In addition, the FY13 projection was adjusted downward by \$4.0 million due to large unclaimed property deposits in FY11 and FY12 that are still uncertain in FY13.

MOTION: TO APPROVE THE MINUTES OF JANUARY 19 AND 24, 2012

Moved by: Wismer  
Second by: Haverly  
Action: Prevailed by voice vote.

MOTION: TO APPROVE THE MINUTES OF FEBRUARY 14, 2012

Moved by: White  
Second by: Bolin  
Action: Prevailed by voice vote.

MOTION: TO APPROVE THE MINUTES OF FEBRUARY 15, 2012

Moved by: Heineman  
Second by: Dryden  
Action: Prevailed by voice vote.

MOTION: TO APPROVE THE MINUTES OF FEBRUARY 16, 2012

Moved by: Juhnke  
Second by: Haverly  
Action: Prevailed by voice vote.

MOTION: ADJOURN

Moved by: Tidemann  
Second by: Juhnke  
Action: Prevailed by voice vote.

Barb Bjorneberg  
Committee Secretary

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Corey Brown, Chair